



COUNTY OF LOS ANGELES TREASURER AND TAX COLLECTOR

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MARK J. SALADINO
TREASURER AND TAX COLLECTOR

November 27, 2002

TO: Bobi Johnson, Deputy, First Supervisorial District
Clinton Tatum, Senior Deputy, Second Supervisorial District
Brence Culp, Deputy, Third Supervisorial District
Sheri Sakamoto, Deputy, Fourth Supervisorial District
Angela Mazzie, Deputy, Fifth Supervisorial District

FROM: Mark J. Saladino
Treasurer and Tax Collector

SUBJECT: **AGENDA ITEM #76, DECEMBER 3, 2002**
CONSTRUCTION FINANCING FOR THE LAC+USC MEDICAL CENTER
REPLACEMENT PROJECT

My office, in conjunction with the Chief Administrative Office, has been evaluating alternative financing strategies for the LAC+USC Medical Center Replacement Project. We engaged the services of Public Resources Advisory Group from the Board's approved pool of independent financial advisors to assist and advise us on this matter.

Our reviews determined that using the existing commercial paper program provides the lowest cost of capital and has the potential for significant savings over other financing structures. While the information to support this recommendation is detailed in the Board letter, only a brief explanation on the background and structure of the commercial paper program itself is provided in that letter.

Attached is a fact sheet that gives a brief summary on many of the key points of the program. This information was provided to Board members and staff in 1997 when the program was first established. One of the primary benefits in using a program like this is flexibility. This program affords considerable control over the timing and amounts for issuance and redemption of commercial paper notes, especially when compared to other types of debt structures. Also, the program can be restructured to respond to changes in the programmatic and operational objectives of the Board by adding, substituting or releasing properties.

I hope you will find this information useful in your review of our recommendations. If you have any questions regarding this material or need additional information on the program or our financing recommendation for the project, please contact Deborah Lindholm in my office of Public Finance at 974-7175.

MJS:DL
dtl:med cntr proj:briefing memo
Attachment

**LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION
TAX-EXEMPT COMMERCIAL PAPER PROGRAM
FACT SHEET**

COMMERCIAL PAPER – GENERAL

- Commercial Paper (CP) notes are short-term debt instruments.
- Interest rates on CP notes are set at the time of issuance and at each reissuance. CP notes can be issued for as little as one day but not more than 270 days.
- Amount of notes that can be issued at one time is flexible and can vary from issuance to issuance. CP notes can be redeemed anytime notes are maturing and in any amount.

COMMERCIAL PAPER – LAC-CAL PROGRAM

- LAC-CAL CP program is structured as a lease using 21 County owned properties.
- Each property has a separate lease schedule. The maximum amount of CP notes that can be issued cannot exceed the combined value of these lease schedules. The values decline (amortize) each year based on each facility's lease schedule.
- The County is required to deposit expected base rental payments with the Trustee at the beginning of each fiscal year on July 15th. Although the County's base rental payments are the primary source of payments on the CP notes, they are also secured by a letter of credit issued by a consortium of banks.
- Expected base rental payments are calculated by formula at 125% of the prior year's interest cost plus principal payments from the lease schedules. If interest rates increase more than 25 basis points (.25%) above the assumed interest rate in a year, additional rent is deposited, or under certain circumstances, additional commercial paper issued to cover the increased interest costs.
- If additional draws are made during any fiscal year, the documents provide a method for depositing additional base rental sufficient to pay the interest and a prorata portion of the principal through the remainder of the fiscal year.
- The maximum issuance amount can be increased by adding additional facilities to the lease and securing letter of credit commitments for the new amount.
- A facility can be released from the lease as long as the values of the remaining leases are sufficient to support the amount of CP notes outstanding at the time. The banks providing the letter of credit support must also approve the release.
- A facility can be substituted for another facility as long as the values of the leases after the substitution are sufficient to support the amount of CP notes outstanding at the time. The banks providing the letter of credit support must also approve the substitution.

STATUS OF EXISTING LAC-CAL CP PROGRAM

- Initially issued \$196.9 million in CP notes in 1997. The Board directed that \$27.5 million be appropriated each year to pay costs and amortize these notes. Outstanding balance is \$84.2 million.
- Additional CP notes of \$44 million have been issued for the LAC+USC Medical Center Replacement Project. Of that amount, \$23.7 million has been redeemed with Federal Emergency Management Authority (FEMA) grant payments. Outstanding balance is \$20.3 million.